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REVIEWED.

6 AUG 1958

MEMORANDUM FOR: Deputy Director (Support)

SUBJECT : GEHA

1. At the meeting of the Board of Directors of GEHA on 22 July 1958 consideration was given to two problems, (1) amending the Certificate of Incorporation and (2) the 75% membership requirement for life insurance under the District Code.

2. Amending the Certificate of Incorporation

The Office of the General Counsel informed the Board of Directors in the early part of this year that our charter of incorporation under the District Code was limited to a hospitalization program and did not include a life insurance program. Under this premise GEHA was conducting its UBLIC life insurance program without specific authorization under the District Code. The Board of Directors met on 18 February 1958 and voted to amend Article 3 of the Certificate of Incorporation in order that life insurance and other insurance programs would be properly authorized. The specific amendment to the Certificate was proposed as follows; "the particular business and objects of the said corporation shall be to make available various types of group or other insurance benefits to members and their dependents, and to do all things necessary or incidental thereto."

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Based upon this authorization, [REDACTED] had an informal meeting with the Superintendent of Corporations, District of Columbia, who stated that GEHA was incorporated under the wrong section of the District Code and consequently he would not see his way clear to accept an amendment to the Certificate of Incorporation. GEHA is incorporated under Chapter 6 of Title 29 of the District Code which covers "charitable, educational and religious associations" and the purposes for which corporations may be organized under this chapter are namely, benevolent, charitable, educational, literary, musical, scientific, religious, or missionary purposes including societies formed for mutual improvement or for the promotion of the arts".

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The Superintendent of Corporations informally advised [REDACTED] of his opinion but this was not a formal rejection as the Superintendent did not accept the letter of transmittal formally proposing an amendment to the Certificate of Incorporation of GEHA. Since this incident, Office of General Counsel has explored various possibilities and alternatives in correcting the corporation status of GEHA. In addition, this matter has been widely and lengthily discussed by the Steering Committee of GEHA and the Board of Directors. In the course of explorations, it was established that in 1957 the NSA, using the GEHA Charter as a format, was incorporated under Chapter 6 of Title 29 and no challenge was issued by the Superintendent of Corporations, the same person who indicated GEHA was improperly incorporated. It should be noted that under the "purpose of organization" the NSA had changed the language which would be almost identical to that proposed by GEHA in amending the GEHA Certificate. In addition, it was found that the State Department Foreign Service Association is also incorporated under this same section of the District Code and their status has not been challenged.

At the meeting of 22 July 1958 the Board of Directors of GEHA unanimously agreed that the General Counsel be authorized to proceed with direct negotiations with the Superintendent of Corporations of the District of Columbia to amend our Charter of Incorporation as proposed on 18 February 1958. The Board further agreed that GEHA might as well face this issue "head on" and officially and formally determined the position of the District Government in this matter. In the event the Superintendent of Corporations still refused to accept the proposed GEHA amendment, it was agreed that the General Counsel deal directly with the Corporation Counsel of the District of Columbia and obtain his official ruling on the status of the GEHA incorporation. In addition, it was the consensus of the Board that the situation of NSA and the State Department Foreign Service Association could well be cited as examples to sustain our position.

The above course of action is one of policy affecting GEHA and the Agency and approval is requested to rectify this situation by the above course of action.

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3. 75% Membership for Life Insurance

Under Title 35, Section 710, "Group Life Insurance", of the District Code provides that no policy of group life insurance shall be delivered in the District of Columbia unless it conforms to certain requirements. Among these is one requirement which was deemed to be pertinent to GEHA, namely, that "when benefits of the (life insurance) policy are offered to all eligible employees not less than 75% of such employees may be so insured." This provision of the District Code has been studied and in effect means that when a life insurance program is offered through GEHA that 75% of the members of GEHA should be holders of life insurance policies. The legal requirement under this section of the Code applies to the life insurance company issuing a group policy placing the responsibility for assuring that the 75% rule is a condition to be met before the life insurance company issues a particular group policy.

This problem has been extensively explored by General Counsel, the Steering Committee of GEHA, and the Board of Directors of GEHA. The interpretation of this provision of the District Code is not clear cut from the GEHA standpoint and the purpose of this provision of the Code apparently was aimed at preventing the organization of small and opportunistic groups for special life insurance privileges. The requirement does not appear to be aimed at organizations, such as GEHA, representing officially approved programs for the benefit of large groups of employees. Despite considerable research there appears to be no equitable solution under the present GEHA status which would readily meet this possible legal requirement except by either the elimination of corporate status or by forming two separate corporations, either one of which would be time consuming and difficult to accomplish.

This problem was discussed with the General Counsel of Omaha who stated that he was not concerned with the 75% rule as set forth under Section 10 of Title 35 of the District Code as he felt that this statute was not aimed at the type of situation existent in GEHA. The

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General Counsel of Omaha further advised that if the District authorities should challenge Omaha for issuing a life insurance contract to GEHA claiming the 75% rule was not met, Omaha would simply, at that point, undertake whatever action was deemed necessary by the District authorities. The General Counsel of Omaha did not consider this to be a problem and did not feel, at this time, that it affected the Omaha relationship with GEHA. It should be further noted that this statutory requirement falls upon the insurance company rather than GEHA.

The Board of Directors considered these facts at its meeting of 22 July and unanimously agreed that GEHA should ignore, at this time, the 75% statutory requirement and proceed with efforts to amend our charter of incorporation. Further, if in the future the essence of this requirement is raised by the District authorities, the Board can, at that time, consider what action would be appropriate.

This proposed course of action is one of a policy nature affecting GEHA and the Agency and your approval of this proposed course of action is requested.

The Director of Personnel and [REDACTED] representing the Office of General Counsel, were present at the 22 July 1958 meeting at which the above actions were proposed.

[REDACTED]
Chairman, Board of Directors
GEHA

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CONCURRENCES:

15/
Director of Personnel

7 Aug 58
Date

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15/
for General Counsel

15 Aug 58
Date

The recommendations in paragraphs 2 and 3 are approved.

AUG 14 1958
Date

(signed) H. Gates Lloyd
Assistant Deputy Director (Support)

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